Company Defined items

1. For all exhibits requiring “by county” information, indicate how the data is grouped, whether by claim county, policy issuing county or other method. If “other”, describe method used. Describe any changes made to the way in which the data has been grouped during the past ten years and the impact of the change(s) on the exhibits.

   MAIC Response: For both exposure and loss data, County reflects the county listed in the physician’s application as the county where the majority of his or her practice is located. The exception to this is with our per visit rated Emergency and Urgent Care business. For that business we have used the policy issuing county.

2. Describe any changes made to reserving or claim payment practices in the past ten years and their impact on the exhibits.

   MAIC Response: No Changes

3. Define closed claim, *i.e.* is a claim closed when it is assigned a closed date, or when both indemnity plus expense reserves are $0, or in some other instance? Describe any changes made to this definition in the past ten years and the impact of the change(s) on the exhibits.

   MAIC Response: A claim is closed when it is assigned a closed date and no changes have been made in the past ten years.

4. Explain/define the corporate policies written by the company.

   MAIC Response: The majority of our business is hospital employed doctors so we have a limited amount of corporation coverage. When necessary and requested, we will issue a corporate policy. For a single physician, a solo corporation can be covered on a shared limits basis at no additional charge. We charge 21% of the top 5 highest rates specialties for separate limits coverage of a corporation.

5. Each company shall use the base class and territory which is consistent with its most recent rate filing. Please define your company’s base class and territory. Describe any changes made to the base class and/or territory in the past ten years and the impact of the change(s) on the exhibits.

   MAIC Response: Base class is Family Practice NMRP for Rest of State and there have been no changes to this.

6. Describe any adjustments made to exposures for extended reporting endorsements and the impact of the adjustment(s) on the exhibits.

MAIC Response: None.

7. For the maturity year and tail factors disclosure, list each tail factor with the corresponding maturity year if a different tail factor is used for each maturity year. If another method is used, list and describe factors and method used.

   MAIC Response: This is shown in the exhibit c(iv) by maturity year.

8. Define what expenses are included in the expense factor.

   MAIC Response: The 16.5% expense factor in c(v) is broken out as follows: 13.5% for underwriting, claims and risk management; 3.5% for general expenses.

9. List and define individually any "other" factors used in the rate filing to establish rates. This could include but is not limited to the following: profit load, reinsurance load, investment income, schedule debits/credits, etc.

   MAIC Response: The 13.3% factor in c(v) under Miscellaneous is the off-balance factor for the anticipated average credit for loss free credits, scheduled debits/credits, newly practicing physician credits, part-time credits and credits for participation in risk management programs according to our filed rules and rates.

MAIC State Reporting Requirements
Exhibit 2B
Questions 1-3

Ex 2B Q1 Reserve Study.

We utilize several methods in estimating the Company's unpaid claim liabilities. We estimate the ultimate loss and loss adjustment expenses. The reserve is simply the ultimate less the paid. The methodologies used to determine and monitor loss and loss adjustment expenses for MAIC are as follows:

Loss development: For a group of homogenous claims (i.e. claims that emerge from policies written for similar types of risks evaluated at comparable periods of time) historical case incurred amounts tend to develop or change in the same basic way. This development continues until ultimately the final settlement amount for every claim is determined and all claims are closed and the chance of any new claims being reported or old claims being re-opened is remote. The stability of this development allows the actuary to project estimates of the ultimate cost of any group of claims

Frequency severity: This method breaks the claims into two components, claim frequency and claim severity. We used this method for both the claims-made book and the occurrence book. Claim frequency refers to the number of claims per exposure. Claim severity is the average cost per claim.

Yet to close with indemnity: This method is similar to the frequency/severity method except only the unpaid amount is targeted. Specifically, we apply the average claim size to the estimated claims yet to close with indemnity, giving an estimate of the amount yet to be paid. We then add the result to the amount already paid to get an estimate of ultimate

Bornhuetter-Ferguson: R.L. Bornhuetter and R.E. Ferguson developed a method that utilizes historical development patterns, actual loss data and expectations of ultimate losses to develop an experience-based indication of ultimate losses. In essence, the ultimate losses at any one point are the sum of the actual losses plus the expected future losses based on an *a priori* estimate adjusted for expected loss development. For a more complete description of this method please refer to "The Actuary and IBNR", *Proceedings of the Casualty Actuarial Society LIX*

***Ultimate D&CC to Ult Loss**:* This method uses the ratio of ultimate D&CC to ultimate losses for a base period and assumes that the ratio is applicable for subsequent periods. In this case, our base period was the 1995 through 2003 report years, and the subsequent periods were the 2004 and 2006 report years

These reviews are preformed on a quarterly basis.

Ex 2B, Q2.

It is important to note that estimates of future unpaid claim liabilities cannot be known with certainty. While our estimates were prepared with appropriate actuarial methodologies and judgments, the true cost of future claims could vary significantly in either direction from our estimates. This uncertainty is compounded because the Company has been writing new business for only two years. Because of this, we relied exclusively on industry data to develop our estimates which leads to potential for additional variability. In addition, potential latent liabilities that may not have historically occurred, new legislation and precedent setting court cases can change the liabilities assumed.

We have identified one specific major risk factor that has a material impact on the variability of the Company's reserves. This is a new company that began writing business in 2004. Certain critical assumptions that were relied upon to estimate reserves were based on external industry data sources. The absence of other risk factors does not imply that other risk factors will not be identified in the future that will have a significant influence on the Company's reserves. This risk is mitigated by the fact that the company reinsures 100% of its loss and expense. We have set the Materiality Standard as 20% of statutory surplus

Ex2B, Q3 Trends

The Company has only been offering coverage since 2004 and therefore lacks sufficient historical data that could be used to measure trends. However, based on the limited data available we do not believe that the Company is experiencing trends outside of industry norms.

Ex 2B, Q1 Surplus

The Company cedes 100% of its direct and assumed business. Ceded loss reserves are all either with residual market pools or with companies rated A- or better by A.M. Best Company or are fully collateralized. Since the Company reinsures 100% of its losses and Defense and Cost Containment expenses, the major risk the Company bears is a credit risk. Even though the Company secures 100% of the reinsurance exposures (such as unpaid losses and unearned premiums) from the unauthorized reinsurers through letter of credit and Funds held, the Risk Based Capital (RBC) still requires 10% of the reinsurance exposures to be assigned to the surplus as a credit risk.

Since the Company writes long tail business, the reinsurance exposures are expected to increase for several years due to the growth of loss reserves until claim payments offset the reserve increase. Accordingly, management expects the credit risk to be increased for the next several years.

Management does not believe the Company has an exposure to the credit risk as the RBC requirements suggests, since the Company withheld in cash and obtained letters of credit from the unauthorized reinsurers. However, the Company's management intends to meet the surplus level suggested by the RBC.

The Company retains 20% of direct premiums written, and required to have a risk based capital of $1.6 to $1.7 million before covariance. The Company expects this underwriting risk to be maintained in that range for the next several years based on the Company's anticipated growth rate.

Overall, management believes the Company's surplus to be adequate considering all the major risks. However, if the Company's surplus level falls below the required RBC, the Company's parent company plans to contribute an additional amount of capital to the Company as needed basis.

Ex 2B, Q2 Surplus

There were no material changes in the actuarial assumptions or actuarial methodologies used to evaluate the Company's unpaid claim liabilities. It is our understanding that the Company's statutory unpaid claim liabilities will not create any exceptional values in the IRIS tests regarding one-year development to surplus, two-year development to surplus, or estimated current reserve deficiency to surplus.

MEDICAL ALLIANCE INSURANCE COMPANY
ACTUARIAL MEMORANDUM
PHYSICIANS PROFESSIONAL LIABILITY
EFFECTIVE SEPTEMBER 1, 2006

INTRODUCTION

This document summarizes the actuarial assumptions, methodologies and conclusions used to derive the rate and rating plan changes filed by Medical Alliance Insurance Company (MAIC) for its physician professional liability business. The proposed rates were developed based on an analysis of historical premium and loss experience of MAIC and the historical premium and loss experience of two companies which preceded MAIC in writing a substantially similar book of business, as well as the rates and rating plans recently filed by the Illinois State Medical Inter-Insurance Exchange (ISMIE) effective July 1, 2006.

SUMMARY

We have analyzed MAIC's rate level indications for policies issued on or after September 1, 2006 and concluded that the manual rates can be decreased by 7.1% for annually rated physicians. As the overall rate level for per visit rated business is not being changed, the impact of this filing is a reduction of 6.0%. It is proposed that this reduction be achieved by utilizing the rates filed by ISMIE with four exceptions:

1. MAIC rates for annually rated physicians will be 5.3% below those filed by ISMIE.
2. ISMIE has elected to move Jackson County from its second highest rated territory to its highest rated territory. A review of loss experience in

Jackson County indicates that this move is not warranted for MAIC's business. Therefore, Jackson County will remain in MAIC's second highest rated territory.

3. ISMIE has created a new territory for Peoria County, and given that territory a lower rate. Based on a review of loss data we do not believe the loss experience in Peoria County is markedly lower than surrounding counties. Therefore, Peoria County will remain in the "Rest of State" territory.
4. A portion of MAIC's book is rated on a per visit basis to which territorial relativities are not currently applied. MAIC will begin applying territorial relativities to its per visit business in a manner that is revenue neutral.

PROCEDURE

A rate indication is derived by comparing estimates of future losses and expenses to premiums based on the current rate levels. If this comparison indicates that the premiums will not be sufficient to cover projected losses and expenses, a rate increase is indicated. If premium is expected to exceed losses, expenses and profit objectives, a rate decrease is indicated. This report summarizes our analysis of each of the three components:

- Estimated loss and allocated loss adjustment expenses (D&CC);
- Estimated premiums at current rate levels; and
- Other rating components.

LOSSES AND D&CC

The objective of this portion of the analysis is to use historical experience to estimate expected losses for policies issued from September 1, 2006 through August 31, 2007. To do so we must first develop them to an ultimate basis. Secondly, we add a provision for inflation, recognizing that losses occurring in the past would cost more if they occurred in the future.

Development to Ultimate

This step is necessary to account for development on known claims and to add a provision for "pipeline" claims that may be reported after the evaluation date. As a technical note, the data relied on for this analysis was valued as of April 30, 2006 and consisted of only the annually rated physician business, a subset of the total book of business. MAIC provides coverage on a per physician (annually rated) basis or a per visit basis. The per visit basis is utilized by emergency department and urgent care physicians.

The following table, extracted from Exhibit 1, summarizes the results of this analysis:

Report Year	Reported Losses & D&CC	Estimated Ultimate Losses and D&CC
1995	516,985	516,985
1996	266,403	266,403
1997	2,274,312	2,274,312
1998	1,728,728	1,640,059
1999	107,918	98,099
2000	314,727	285,987
2001	1,415,751	1,288,389
2002	3,030,758	2,851,547
2003	2,563,191	2,657,787
2004	1,901,419	3,506,782
2005	3,227,183	5,940,187

We utilized three methods in developing our estimates of the ultimate losses and D&CC: a loss development method, a pure premium method and a frequency / severity method. The loss development factors were derived using historical triangles of all claims-made business sorted on a report year basis, with year end valuations. These factors were adjusted to be applicable to losses and D&CC valued as of April 30, 2006. The triangles and the resulting loss development

factors are shown on Exhibit 2, Pages 1 and 2. Note that losses were capped at $500,000 to lend stability to the analysis.

The pure premium method uses a set of base years, adjusted for inflation and changes in exposure, to estimate the ultimate losses and D&CC for the more recent years. This method is shown on Exhibit 2, Page 3.

The frequency / severity method consists of two steps. First we derive an estimate of the ultimate incurred claims (claims that close with indemnity). Second, we apply an average cost per claim. This method is shown on Exhibit 2, Pages 4 through 6.

Adjustment for Inflation

The next step is to adjust the ultimate losses and D&CC for inflation. For purposes of this analysis, we assume that loss severity will increase at 5% per year and loss frequency will increase at 2% per year, for an overall trend of 7.0% per year. The following table, extracted from Exhibit 3, shows the results:

Report Year	Estimated Ultimate Losses and D&CC	Trended Ultimate Losses and D&CC
1995	516,985	1,164,349
1996	266,403	560,661
1997	2,274,312	4,473,502
1998	1,728,728	3,015,042
1999	107,918	168,552
2000	314,727	459,169
2001	1,415,751	1,933,345
2002	3,030,758	3,999,257
2003	2,563,191	3,483,817
2004	1,901,419	4,295,362
2005	3,227,183	6,800,291

PREMIUM AT CURRENT RATE LEVELS

Like the loss and D&CC provision, we use historical premium with certain adjustments. First, we adjust historical premiums for any changes in the overall average debits and credits by restating the premium at manual rate levels. Second, we adjust for changes in historical rate levels so that all of the historical premiums are stated at MAIC's current manual rate levels.

We now have premiums restated at current levels and losses and D&CC restated at the levels we expect for September 1, 2006 – August 31, 2007 policies. We compare the two to develop the expected loss and D&CC ratios without any rate changes. The results are as follows and as also shown on Exhibit 3:

Calendar / Report Year	Premium at Current Rate Level	Net Ultimate Losses and D&CC Trended	Projected Net Loss and D&CC Ratio
1995	803,781	1,164,349	144.9%
1996	1,360,316	560,661	41.2%
1997	2,556,496	4,473,502	175.0%
1998	3,063,561	3,015,042	98.4%
1999	3,512,814	168,552	4.8%
2000	3,730,450	459,169	12.3%
2001	3,727,674	1,933,345	51.9%
2002	5,162,753	3,999,257	77.5%
2003	6,108,286	3,483,817	57.0%
2004	9,807,843	4,295,362	43.8%
2005	9,913,649	6,800,291	68.6%

From this data we have selected an expected loss and D&CC ratio of 59.1%.

OTHER RATING COMPONENTS

Losses and D&CC Discounted to Present Value

The purpose of this step is to recognize that the time from when the premium is collected to when the losses and D&CC are paid can take from several months to several years. In order to develop the discount factors, we project the payout of

the losses and D&CC, and discount them back using the investment yield assumption adopted by MAIC management of 2.5%. This results in an offset for investment income for losses and D&CC of 8.1% (100% - 91.9% = 8.1%). The support for this calculation is shown on Exhibit 4

Premiums Discounted to Present Value

MAIC bills its premium on a quarterly basis, 34% due up front and 22% due each of the remaining three quarters. Again assuming an investment yield assumption of 2.5%, the offset for investment income for premium is 0.8% (100% - 99.2% = 0.8%). The details are shown on Exhibit 5.

Provision for Death, Disability & Retirement

The MAIC policy offers a free extended reporting endorsement for qualified physicians who die, become disabled or retire while insured with MAIC. Based on industry data, we have included a provision of 4.0%, stated as a load to the losses & D&CC.

Provision for Expenses

MAIC contracts for the provision of all underwriting, risk management, claims, and marketing services. The costs of those contracts are reflected in the following expense provisions.

Commissions & Other Acquisition Costs	3.00%
State Premium Tax	0.50%
Underwriting, Claims & Risk Management	13.00%
General Expenses	3.50%
Total	20.00%

Provision for Profits & Contingencies

This provision is intended to generate profits for MAIC and to provide a cushion to protect the company should the losses and D&CC turn out to be higher than expected. It is important to note that the contingency provision does not provide an absolute protection against adverse claims experience. Instead it is intended to provide a reasonable margin given the risks inherent in providing professional liability coverage for physicians in Illinois. The profit and contingency provision of 5.0% was selected by management.

Adjustment for Average Debits and Credits

MAIC offers various debits and credits. Examples are credits or debits for favorable or unfavorable loss experience, credits for participation in risk management programs and discounts for newly practicing physicians. Management anticipates that the average debit/credit will be a credit of 13.3%.

OVERALL RATE INDICATION

The overall rate indication is derived by adding up all of the components described above. If the result is below 100%, a rate reduction is indicated. If the total exceeds 100%, a rate increase is needed. The following table, reproduced as Exhibit 6, shows the calculation.

1	Projected Loss & D&CC Ratio	59.1%
2	Offset for Investment Income - Losses	0.919
3	Offset for Investment Income - Premium	0.992
4	Discounted Loss & D&CC Ratio	54.7%
5	DD&R Load	4.0%
6	Expected Discounted Losses & LAE	56.9%
7	Expense Load	20.0%
8	Expected Discounted Combined Ratio	76.9%
9	Profit & Contingency Load	5.0%
10	Average Credit / (Debit)	13.3%
11	Total	93.4%
12	**Rate Indication**	**-7.1%**

CONCLUSION

It is important to note that estimates of future rate level requirements cannot be known with certainty. While our estimates were prepared with appropriate actuarial methodologies and judgments, the true cost of future claims could vary significantly in either direction from our estimates. This uncertainty is compounded because MAIC has only been writing new business for less than three years; however, this uncertainty is mitigated by using data from two companies which wrote substantially the same business before MAIC. In addition, potential latent liabilities that may not have historically occurred, new legislation and precedent setting court cases can change the liabilities assumed.

The data underlying our analysis is critical to the assumptions used to derive our reserve estimates. We have assumed that all of the data underlying our analysis accurately reflects the experience of MAIC and similar companies.

LIMITED DISTRIBUTION

This report is intended for the appropriate regulatory authorities and Medical Alliance Insurance Company. Any further distribution without our prior consent is unauthorized. Further, any readers other than the intended parties may not rely on this report either in its entirety or any portion herein.

* * * * *

We appreciate this opportunity to be of service to Medical Alliance Insurance Company, and stand ready to answer any questions.

Respectfully submitted,

Mark J, Cain, FCAS, MAAA
Consulting Actuary

EXHIBIT 1

DEVELOPMENT OF LOSSES & D&CC TO ULTIMATE

Report Year	Incurred Development Method	Pure Premium Method	Frequency / Severity Method	Selected Ultimate Losses & D&CC at 4/30/2006
1995	516,985			516,985
1996	266,403			266,403
1997	2,274,312			2,274,312
1998	1,640,059			1,640,059
1999	98,099			98,099
2000	285,987			285,987
2001	1,288,389			1,288,389
2002	2,851,547			2,851,547
2003	2,657,787			2,657,787
2004	2,185,890	5,137,269	3,197,185	3,506,782
2005	6,497,966	5,559,444	6,320,930	5,940,187

EXHIBIT 2, Page 1

LOSS & D&CC DEVELOPMENT METHOD

Report Year	Reported Losses & D&CC at 4/30/2006	Month of Development	Loss Development Factor	Indicated Ultimate Losses & D&CC at 4/30/2006
1995	516,985	136	1.000	516,985
1996	266,403	124	1.000	266,403
1997	2,274,312	112	1.000	2,274,312
1998	1,728,728	100	0.949	1,640,059
1999	107,918	88	0.909	98,099
2000	314,727	76	0.909	285,987
2001	1,415,751	64	0.910	1,288,389
2002	3,030,758	52	0.941	2,851,547
2003	2,563,191	40	1.037	2,657,787
2004	1,901,419	28	1.150	2,185,890
2005	3,227,183	16	2.014	6,497,966

EXHIBIT 2, Page 2

LOSS DEVELOPMENT FACTORS

Incurred Loss @500k & Incurred ALAE																							
Report Year	12	24	36	48	60	72	84	96	108	120	132												
1995	190,484	1,130,667	452,667	566,098	585,153	611,213	611,785	568,959	568,984	568,984	568,984												
1996	306,500	831,417	674,769	684,769	677,087	677,087	677,045	649,288	649,366	649,366													
1997	460,000	1,256,636	1,970,898	1,934,453	2,328,453	2,385,840	2,392,834	2,337,566	2,063,891														
1998	746,500	1,405,741	1,753,033	1,951,564	1,951,564	1,829,127	1,829,682	1,829,682															
1999	203,355	607,599	340,599	177,623	122,972	122,972	177,536																
2000	181,266	373,935	398,216	418,266	364,629	383,893																	
2001	338,662	574,650	787,265	1,179,648	1,245,559																		
2002	894,579	2,275,599	3,022,169	3,667,927																			
2003	1,609,749	3,137,107	3,366,702																				
2004	1,660,136	1,897,227																					
2005	2,973,540																						
	12.024	24.036	36.048	48.06	60.072	72.084	84.096	96.108	108.12	120.132													
1995	5.936	0.400	1.251	1.034	1.045	1.001	0.930	1.000	1.000	1.000													
1996	2.713	0.812	1.015	0.989	1.000	1.000	0.959	1.000	1.000														
1997	2.732	1.568	0.982	1.204	1.025	1.003	0.977	0.883															
1998	1.883	1.247	1.113	1.000	0.937	1.000	1.000																
1999	2.988	0.561	0.522	0.692	1.000	1.444																	
2000	2.063	1.065	1.050	0.872	1.053																		
2001	1.697	1.370	1.498	1.056																			
2002	2.544	1.328	1.214																				
2003	1.949	1.073																					
2004	1.143																						
Average	2.565	1.047	1.081	0.978	1.010	1.090	0.966	0.961	1.000	1.000													
Col Sum	2.047	1.101	1.126	1.053	0.997	1.011	0.977	0.923	1.000	1.000													
Select	2.047	1.101	1.126	1.053	0.997	1.011	0.977	0.923	1.000	1.000	TAIL												
Cum	2.427	1.186	1.077	0.957	0.909	0.912	0.902	0.923	1.000	1.000	1.000												
		16 to Ult	28 to Ult	40 to Ult	52 to Ult	64 to Ult	76 to Ult	88 to Ult	100 to Ult	112 to Ult	124 to Ult												
Interpolated Cum LDF		2.014	1.150	1.037	0.941	0.910	0.909	0.909	0.949	1.000	1.000												

EXHIBIT 2, Page 3

PURE PREMIUM METHOD

Report Year	Earned Mature FP NS, ROS Exposures	Indicated Ultimate Losses & D&CC at 4/30/2006	Pure Premium	Pure Premium Trended to 2004 RY [1]	
1995	50	516,985	10,340	19,009	
1996	85	266,403	3,134	5,385	
1997	160	2,274,312	14,214	22,825	
1998	192	1,640,059	8,542	12,819	
1999	220	98,099	446	625	
2000	234	285,987	1,222	1,602	
2001	234	1,288,389	5,506	6,745	
2002	324	2,851,547	8,801	10,076	
2003	383	2,657,787	6,939	7,425	
				9,613	Average
				8,353	Wtd Avg
				8,353	Select
2004	615	5,137,269	8,353		
2005	622	5,559,444	8,938		

[1] Assumes 7% annual trend

EXHIBIT 2, Page 4

FREQUENCY / SEVERITY METHOD

ESTIMATED ULTIMATE CLAIMS INCURRED

Report Year	Reported Claims at 4/30/2006	Month of Development	Claim Development Factor	Indicated Ultimate Reported Claims at 4/30/2006
1995	5	136	1.000	5
1996	12	124	1.000	12
1997	16	112	1.000	16
1998	11	100	1.000	11
1999	13	88	1.000	13
2000	15	76	1.000	15
2001	16	64	1.000	16
2002	27	52	1.000	27
2003	16	40	1.000	16
2004	37	28	1.000	37
2005	68	16	1.054	72

Report Year	Incurred Claims at 4/30/2006	Month of Development	Claim Development Factor	Indicated Ultimate Incurred Claims at 4/30/2006
1995	4	136	1.000	4
1996	6	124	1.000	6
1997	10	112	1.000	10
1998	7	100	1.000	7
1999	6	88	0.917	6
2000	5	76	0.875	4
2001	9	64	0.833	8
2002	15	52	0.754	11
2003	13	40	0.658	9
2004	25	28	0.530	13
2005	58	16	0.335	19

Exhibit 2, Page 5

FREQUENCY / SEVERITY METHOD

ESTIMATED ULTIMATE CLAIMS INCURRED

Report Year	Indicated Ultimate Reported Claims at 4/30/2006	Indicated Ultimate Incurred Claims at 4/30/2006	Ratio	
1995	5	4	0.800	
1996	12	6	0.500	
1997	16	10	0.625	
1998	11	7	0.636	
1999	13	6	0.462	
2000	15	4	0.267	
2001	16	8	0.500	
2002	27	11	0.407	
2003	16	9	0.563	
			0.529	Average
			0.496	Wtd Avg
			0.496	Select
2004	37	18	0.496	
2005	72	36	0.496	

Report Year	Incurred Development Method	Ratio to Reported Method	Selected Ultimate Incurred Claims at 4/30/2006
1995	4		4
1996	6		6
1997	10		10
1998	7		7
1999	6		6
2000	4		4
2001	8		8
2002	11		11
2003	9		9
2004	13	18	14
2005	19	36	27

Exhibit 2, Page 6

Frequency / Severity Method

Report Year	Selected Ultimate Incurred Claims at 4/30/2006	Indicated Ultimate Losses & D&CC at 4/30/2006	Average Ultimate	Average Ultimate Trended to 2004 RY [1]	
1995	4	516,985	129,246	200,503	
1996	6	266,403	44,401	65,600	
1997	10	2,274,312	227,431	320,019	
1998	7	1,640,059	234,294	313,977	
1999	6	98,099	16,350	20,867	
2000	4	285,987	71,497	86,905	
2001	8	1,288,389	161,049	186,434	
2002	11	2,851,547	259,232	285,803	
2003	9	2,657,787	295,310	310,075	
				198,909	Average
				222,960	Wtd Avg
				222,960	Select
2004	14	3,197,185	222,960		
2005	27	6,320,930	234,109		

[1] Assumes 5% annual trend

EXHIBIT 3

ADJUSTMENT FOR INFLATION IN LOSS COSTS

Report Year	Selected Ultimate Losses & D&CC at 4/30/2006	Trend Factor [4]	Trended Ultimate Losses & D&CC	Projected Period Loss & D&CC Ratio
1995	516,985	2.25	1,164,349	144.9%
1996	266,403	2.10	560,661	41.2%
1997	2,274,312	1.97	4,473,502	175.0%
1998	1,640,059	1.84	3,015,042	98.4%
1999	98,099	1.72	168,552	4.8%
2000	285,987	1.61	459,169	12.3%
2001	1,288,389	1.50	1,933,345	51.9%
2002	2,851,547	1.40	3,999,257	77.5%
2003	2,657,787	1.31	3,483,817	57.0%
2004	3,506,782	1.22	4,295,362	43.8%
2005	5,940,187	1.14	6,800,291	68.6%
			Select	59.1%

[4] Effective date of 9/1/2006, bulk renew January 1, implies average report date of 7/1/2007, 7% annual trend

EXHIBIT 4

LOSS & D&CC DISCOUNT FACTOR

Paid Loss @500k & Paid ALAE																							
Report Year	12	24	36	48	60	72	84	96	108	120	132												
1995	2,634	2,667	16,602	496,612	504,823	540,595	543,535	568,959	568,984	568,984	568,984												
1996	42,682	283,346	517,078	524,046	586,275	598,838	610,843	649,288	649,366	649,366													
1997	8,040	423,506	1,192,628	1,221,664	1,262,259	1,844,511	1,858,512	1,925,802	2,063,891														
1998	17,237	432,732	778,371	1,317,611	1,825,916	1,829,127	1,829,682	1,829,682															
1999	6,974	19,574	33,522	67,862	122,972	122,972	177,536																
2000	6,798	29,198	60,603	89,549	364,629	383,893																	
2001	177,214	210,499	247,619	826,267	858,779																		
2002	20,975	1,141,284	2,270,597	2,517,220																			
2003	176,952	974,926	1,694,256																				
2004	148,389	325,468																					
2005	73,998																						
	12.024	24.036	36.048	48.06	60.072	72.084	84.096	96.108	108.12	120.132													
1995	1.013	6.225	29.913	1.017	1.071	1.005	1.047	1.000	1.000	1.000													
1996	6.639	1.825	1.013	1.119	1.021	1.020	1.063	1.000	1.000														
1997	52.675	2.816	1.024	1.033	1.461	1.008	1.036	1.072															
1998	25.105	1.799	1.693	1.386	1.002	1.000	1.000																
1999	2.807	1.713	2.024	1.812	1.000	1.444																	
2000	4.295	2.076	1.478	4.072	1.053																		
2001	1.188	1.176	3.337	1.039																			
2002	54.413	1.990	1.109																				
2003	5.510	1.738																					
2004	2.193																						
Average	15.584	2.373	5.199	1.640	1.101	1.095	1.036	1.024	1.000	1.000													
Col Sum	6.322	1.936	1.380	1.216	1.140	1.017	1.027	1.044	1.000	1.000													
Select	6.322	1.936	1.380	1.216	1.140	1.017	1.027	1.044	1.000	1.000	TAIL												
Cum	25.536	4.039	2.086	1.512	1.243	1.090	1.072	1.044	1.000	1.000	1.000												
Pmt Pattern	0.039	0.248	0.479	0.661	0.804	0.917	0.933	0.958	1.000	1.000	1.000												
Incremental	0.039	0.208	0.232	0.182	0.143	0.113	0.016	0.025	0.042	0.000	0.000												
Discounted @2.5%	0.5	1.5	2.5	3.5	4.5	5.5	6.5	7.5	8.5	9.5	10.5												
	0.039	0.201	0.218	0.167	0.128	0.098	0.013	0.021	0.034	0.000	0.000												
Dscnt Factor	0.919																						

EXHIBIT 5

PREMIUM DISCOUNT FACTOR

Date of Pmt in Days	0	90	180	270
Payment Percentage	0.340	0.220	0.220	0.220
Discounted	0.340	0.219	0.217	0.216
Discount Factor	0.992			

EXHIBIT 6

OVERALL RATE INDICATION

1	Projected Loss & D&CC Ratio	59.1%
2	Offset for Investment Income - Losses	0.919
3	Offset for Investment Income - Premium	0.992
4	Discounted Loss & D&CC Ratio	54.7%
5	DD&R Load	4.0%
6	Expected Discounted Losses & LAE	56.9%
7	Expense Load	20.0%
8	Expected Discounted Combined Ratio	76.9%
9	Profit & Contingency Load	5.0%
10	Average Credit / (Debit)	13.3%
11	Total	93.4%
12	**Rate Indication**	**-7.1%**

Notes:
(4) = (1) x (2) / (3)
(6) = (4) x {1 + (5)}
(8) = (6) + (7)
(11) = (8) / {1 - (9)} / {1 - (10)}
(12) = 100% - 1 / (11)

Reconciliation

We took the following steps to reconcile the submitted data.

- Loss payments, defense and cost containment (DCC) expense payments, incurred losses and incurred DCC expenses included in the submitted data were totaled and verified against the 2007 Annual Statement.
- Premiums, losses, DCC expenses, case reserves, IBNR reserves and other information included in Exhibit 2A - Reserve section were verified against the 2007 and prior Annual Statements.
- Net income and other surplus changes included in Exhibit 2A – Surplus section were verified against the 2007 and prior Annual Statements.

We excluded incidents which have not been asserted as claims from the submitted data. The total amount of such incidents was approximately $47,000 in DCC payments, $68,000 in DCC incurred, and $25,000 in indemnity incurred. As a result, the submitted data differs from the 2007 Annual Statement by these amounts.

Certification

I, Terri L. Allen, Assistant Treasurer of Medical Alliance Insurance Company, certify that the data filed is accurate and reasonably reconciles with the most recently filed annual statutory financial statement.

Signature and Title — Date: 4-30-08

I, Mark J. Cain, a duly authorized actuary of Illinois Risk Management Services, am authorized to certify on behalf of Medical Alliance Insurance Company that the data filed is accurate and reasonably reconciles with the most recently filed annual statutory financial statement.

Signature, Title and Designation of Authorized Actuary — Date: 5/1/08